

STATE OF CALIFORNIA
DEPARTMENT OF CORPORATIONS

TEXT OF PROPOSED CHANGES
UNDER THE CORPORATE SECURITIES LAW OF 1968
PURSUANT TO NOTICE
DATED: January 22, 2003

1. Amend Section 260.140.72 to read:

(a) This subarticle sets forth the standards with respect to an application of a church for a permit to sell debt securities in a limited offering pursuant to Section 25113 of the Code. An offering of church debt securities to the general public, even if combined with an offering to the persons described in subdivision (d), will be subject to the standards generally applicable to public offerings of debt securities (including, but not limited to, Rules 260.140.4, 260.140.5 and 260.140.10) and to the special standards set forth in this subarticle, except for Rules 260.140.72.3 and 260.140.72.4.

(b) "Cash-flow," as used in Rule 260.140.10 when applicable to offerings of debt securities by churches and for the purposes of this subarticle, and as used in Rule 260.140.72.2, means donations and other revenue which can be demonstrated to be of a continuing nature as distinguished from irregular fund raising campaigns.

(c) "Church," for the purposes of this subarticle, includes a church, a synagogue, temple, mosque or other place of worship and related church property such as a school or youth camp. "Church" shall be a nonprofit organization that operates exclusively for religious purposes and qualifies as a Section 501(c)(3) organization pursuant to the Internal Revenue Code of 1986.

(d) "Limited offering," for the purposes of this subarticle, means an offering only to a group of persons, each of whom is an individual who, prior to solicitation for the purchase of the security, was a member of, contributor to, or participant in the church or in any specified program, activity or organization which is a part of the church, or who is a family member of such individual. In addition, "limited offering" for purposes of this subarticle may include an offering to a bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act of 1940, or pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer), whether the purchaser is acting for itself or as trustee. As used in this subsection, "family member" means an ancestor or descendant, a brother, sister, aunt, uncle, niece, nephew or first cousin.

Note: Authority cited: Section 25610, Corporations Code. Reference: Section 25140, Corporations Code.

2. Amend Section 260.140.72.1 to read:

The application must contain the information required by Sections 260.110 and 260.113 of the Commissioner's Rules. In addition, the following information must be filed as an exhibit to the application:

(a) If any portion of the net proceeds from the sale of the securities is to be used for the construction of real estate improvements, a schedule detailing the construction of the project and a statement of estimated cost with respect to each part of the construction project. The cost estimate shall be substantiated by a statement of a qualified independent contractor or other qualified and independent person. The

application shall demonstrate that with the proceeds of the proposed financing, the applicant will have funds sufficient to complete the project.

(b) A copy of the resolution adopted by the governing body of the applicant providing:

(1) for a fund devoted exclusively to the payment of interest and principal on the debt securities proposed to be issued and pledging a specified portion of the monthly revenues of the applicant to the fund devoted exclusively to the payment of such interest and principal. The portion pledged shall be sufficient for the payment of current interest and maturing installments of principal;

(2) that such fund shall be maintained with and administered by a federally insured bank located in any of the United States;

(3) That all monies received from the sale of securities shall be deposited in a trust account available only for expenditures on account of the project for which the indebtedness is to be incurred; and

(4) that such trust account shall be maintained with and administered by a bank or savings and loan association located in California. This subsection (b)(4) shall not apply to:

(A) a firmly underwritten public offering; or

(B) a public offering where the issuer and selling broker-dealer commit as a part of the verified application of the issuer that less than 50 percent of the debt is to be held by persons who have addresses in this state according to the records of the underwriter. For the purposes of this rule, a public offering is "firmly underwritten" when an underwriter unconditionally agrees to purchase all the debt to be issued by a church

in a specified offering to the public, subject to agreed upon provisions relating to acts occasioned by nature without the interference of any human agency.

(c) An opinion of legal counsel attesting to: the authority of the applicant to offer and sell the debt securities; the status of the applicant as a nonprofit organization; and whether after the sale, the church debt securities will be valid, binding obligations of the applicant in accordance with the issuer's governing documents.

Note: Authority cited: 25610, Corporations Code. Reference: Section 25140, Corporations Code.

3. Amend 260.140.72.5 to read.

(a) The offering shall be accompanied by a disclosure document in the form and containing the information required by the Offering Circular provisions of the Guidelines for Offerings of Church Bonds of the North American Securities Administrators Association, adopted ~~April 29, 1981~~ April 24, 2002. The proposed disclosure document shall be attached as an exhibit to the application.

(b) If purchasers are given the opportunity to make payment by means of borrowing or installment payments, these payment methods shall be clearly described in the disclosure documents, and all expenses and charges, including those on account of interest or loss of interest, if any, shall be disclosed.

(c) Terms such as "lay-away-plan," "safe investment," and "revenue bonds" shall not be approved. Unsecured promissory notes may not be described as "bonds."

Note: Authority cited: 25610, Corporations Code. Reference: Section 25140, Corporations Code.